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## The Current Challenges of Venezuelan Democracy

Ana María Sanjuán

Even if Venezuela is currently the most politically polarized society in Latin America, according to the latest *Latinobarómetro* results released in August 2004, Venezuelans prefer to resolve their conflicts through democracy. This was evident in the massive popular participation in the August 15 recall referendum, which ratified Hugo Chávez as president of the Republic with almost 60% of the valid votes—a similar proportion of the votes he received in the 1998 and 2000 elections. However, neither these electoral results nor the ones of October 31—where Chávez supporters won 20 of the 22 state government races and 270 of the 337 municipal governments in the country—in and of themselves ensure a solution to the Venezuelan political crisis. This is illustrated by the fatal terrorist attack against state prosecutor Danilo Anderson, who was handling the most political and polemical cases for the Attorney General's Office in an effort to shed light on events surrounding the April 2002 *coup d'état* (see Newsbrief on Venezuela). This dramatic event, together with the electoral results, is evidence of the social and political fragmentation of Venezuelan society. Each side holds opposed and mutually exclusive views of the political, economic and social reality that exists in Venezuela, which prevents both sides from developing a collective and cohesive vision of the future. Thus, in order to strengthen democracy in Venezuela, the lessening of the current political polarization is an objective that cannot be postponed. To deal democratically with this polarization and the underlying social conflict, and to progressively reduce the tensions and divisions created by them, institutionalization, social justice and dialogue are required.

### Institutionalization

The main challenges in this area are related to the current political and institutional deficits. One of the elements that feeds the conflict is the lack of effective political institutions that can act as mediators. Since the collapse of the party system that had prevailed in Venezuela until the late-1980s, the country has failed to reconstruct a system of political institutions capable of building consensus between varied and fragmented interests. To advance political institutionalization that can facilitate a democratic response to political polarization, it is necessary to go beyond the politics of the streets or of the TV studios, which are in essence short-term. Instead, efforts must be made to construct more stable political structures, which are flexible enough to deal with the high demand for political participation that currently characterizes Venezuelan society, particularly among the economically and socially disadvantaged sectors. A minimal amount of political institutionalization will enable a longer-term view of the conflict, permit leaders to rise above immediate political obstacles, and promote the re-politicization of politics; all of which would discourage the emergence and consolidation of non-traditional actors in politics, such as the media and the Military.

Regarding institutional deficits, another effective way to reduce the high levels of polarization is to increase the efficiency of the Venezuelan state by recuperating its central role as arbitrator of conflicts, corrector of inequalities, and as a democratizing force in society. In the current context, the Venezuelan state is highly incapable of fulfilling these tasks and consequently is unable to project a vision of the future that is considered feasible and worth the shared effort of the majority of the population. However, the most important institutional deficits are related to the judiciary and to the institutions responsible for addressing social inequalities.

## Venezuela

The November 18 killing of state prosecutor Danilo Anderson re-ignited political tensions portending renewed instability and a possible government crackdown in Venezuela. On November 19 BBC reported that both government and opposition alliance officials denounced the attack, calling it an "act of terrorism". Many observers thought that political tensions had eased after the August 15 referendum that confirmed President Hugo Chávez's political mandate and the October 31 regional elections, which consolidated the President's power base. Raising the spectre of increased political violence, however, the assassination exemplifies the political volatility of Venezuela.

Danilo Anderson was the Chief State Prosecutor in the investigation of the opposition forces accused of organizing the April 2002 coup, which witnessed the two-day expulsion of populist President Chávez. It was commonly held that opposition supporters viewed the Anderson enquiry as a political vendetta driven by a rising autocrat.

Government officials believe that the car bombing that killed Anderson sought not only to derail the investigation but also to wield a harsh critique at the judicial system. Speculation regarding who was responsible for the attack continues. Reuters reported that Information Minister Andrés Izarra had suggested that anti-Chávez radicals in exile in Florida had spearheaded the attack, while others suggested it was organized by those under investigation (11/20/04). Neither of these claims has been substantiated and officials in Washington deny any knowledge of such activities in Florida.

In response to the incident, President Chávez decreed his ministers of Interior and Justice as well as Defence to draft an anti-terrorism plan. Reuters reported the president as saying "I want the murderers of Danilo Anderson in prison what ever it costs, but of course within the bounds of the constitution" (11/21/04). Many observers believe this provides an opening for anti-democratic reforms. In addition to fuelling political instability in the country, this incident has the potential to exacerbate already strained relations between Venezuela and the United States.

Despite the advances made in the 1999 Constitution, the delivery of justice remains affected by the lack of independence, political partisanship, and the distance of the judiciary from the majority of the population. The current government, like many others in Latin America, attempts to resolve political impasses through changes in the legal architecture or by accusing its political adversaries, which leads to a further weakening of the justice system and an aggravation of the political conflict. The recent attack against a prominent member of the Venezuelan Judicial Branch will put the system on trial: given the particular nature of the case, it must be separated from political interests and justice must be done without delay in order to avoid the spiral of violence.

With regards to the institutions responsible for the redistribution of resources, the government, in the interest of making the state more efficient, has created new institutions—the "social missions"—to reach the excluded sectors of population in a more efficient way in order to redistribute resources. The most important of these missions focus on literacy, basic health, secondary and higher education and include food subsidy and job assistance programs. However, proceeding in this manner involves risks that can weaken traditional institutions even further. Although these government missions, which bypass traditional state agencies, form part of the affirmative action policies that seek to reach excluded sectors of society more directly, it is important that the government not just respond to the demands for transparency and citizen control over the enormous resources that such missions manage, but that it also estimate the mission's real effectiveness and impact on the targeted population and universalization of human rights.

### Social Justice

Another issue that must be dealt with in Venezuela is the need to pay the debt to society and to reverse the immense accumulated social deficit. The deepening of democracy in Venezuela requires the reversal of the untenable social landscape of the country and demands that the excluded segments of population are not just visible during electoral processes. The full exercise of civil and political rights in Venezuela requires equipping citizens with basic capacities

(e.g. education and access to information) and access to minimal quality of life conditions; just the opposite of the distressing conditions of extreme poverty in which 33% of the Venezuelan population currently live. Short and medium-term policies are needed to reverse current social inequalities, such as compensation policies and policies to alleviate poverty. In the medium and long-term there is need for a considerable institutional reform to foster public education that would incorporate the excluded masses and provide them with satisfactory levels of education.

### Dialogue

Finally, it is important to remember that democracy does not just entail elections and institutions, but also a political system that promotes dialogue and provides the possibility of managing conflict without violence. As such, it is necessary to foster a social consensus about the main problems facing Venezuela and how they can be resolved. The government has the main, though not exclusive, responsibility in this endeavour, which necessitates the recognition of political adversaries and the promotion of respect and democratic coexistence despite differences. To advance in this direction, the education and promotion of democratic values and civic attitudes is key. In the absence of democratic dialogue between political actors, polarization is likely to increase to unmanageable and dangerous levels. As we have witnessed on November 18, the risk of violence still lingers. Thus, dialogue and political recognition are even more urgent in this post-electoral context. ■

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## Chile's 2004 Municipal Elections

Carlos Huneeus

On October 31, Chile held municipal elections in 345 municipalities for the fourth time since the reestablishment of democracy in 1990. The elections were undertaken according to a new electoral law under which mayors and city councillors are elected separately, with each coalition nominating a single mayoral candidate and individual parties competing for councillor positions. Previously, mayors were chosen from among the councillors. In addition, for the first time parties received public financing and there were clear limits on electoral spending. These reforms were a goal of President Ricardo Lagos' governing coalition *Concertación por la Democracia* (Concertación), formed by the Christian Democrat Party (PDC), the Socialist Party (PS), the Party for Democracy (PPD) and the Radical Social Democrats (PRSD). These reforms were initially rejected by the conservative opposition coalition, the *Alianza por Chile* (Alliance), formed by the Independent Democratic Union (UDI) and the National Renovation Party (RN), which had access to substantial economic resources during the last elections, especially the UDI candidates. The new electoral laws were facilitated by a 2003 agreement between the government and the opposition.

### The Local Goes National

The timing of the October 31 municipal elections was significant. Taking place one year before the 2005 presidential election, all parties were counting on the results to support their positions in the upcoming campaigns. The PDC, under the leadership of Adolfo Zaldívar, sought to reverse the steady decline in support that saw the party lose 18.9% of the popular vote between 1989 and 2001, and to reestablish its position as the country's principal party, a distinction it held from 1963 until the late 1980s. The PDC also needed good results in this election in preparation for internal coalition negotiations to select a presidential candidate for the Concertación, who have won three previous presidential elections (1989, 1993 and 1999-2000). To this end, the PDC negotiated the nomination of a large number of mayoral and councillor candidates, but ceded the municipality of Santiago to the PPD, who vowed to win the mayorship of Santiago to strengthen its image for the 2005 elections. Finally, in an effort to bolster his party, the President of the PS predicted that his candidates would receive 15% of the vote.

In the December 1999 presidential elections Alliance candidate, Joaquín Lavín (UDI), received only 31,140 fewer votes than those obtained by the current president, forcing a runoff election. Meanwhile, since the 1996 municipal elections the Alliance has been trying to increase their share of the vote and expected to tie with the Concertación in the 2004 contest, building on their success in the 2000 municipal elections in which they captured 41.16% of the vote, 8.69% over the 1996 total. During 2001 they also increased the number of mayorships from 136 to 164, including the important localities of Santiago, Concepción—the third most populous locality—and various others in the metropolitan area, meaning that more than half of Chileans lived in municipalities controlled by the opposition.

### The National Goes Local

Just as the municipal elections are an important gauge for the 2005 elections, the municipal electoral campaign was also influenced by the upcoming presidential campaign. Coalition leader Joaquín Lavín traveled around the country in support of the Alliance, politicizing the municipal campaigns with national issues, despite the fact

that local factors often predominate these type of campaigns.

President Lagos called for the support of Concertación candidates, signaling that votes for the opposition would be considered a sign of opposition to his government. His ministers participated in electoral activities supporting Concertación candidates, highlighting the enthusiasm generated by the Foreign Minister, Soledad Alvear (PDC), and the Defence Minister Michelle Bachelet (PS). On September 29 the president reshuffled his cabinet and removed both ministers, allowing them to fully dedicate themselves to the campaign and to back mayoral candidates for the Concertación.

In addition to the Concertación and the Alliance, a third coalition—"Together We Can", formed by diverse organizations, the principal of which is the Communist Party—also generated a list of candidates to compete in the race.

### Election Outcomes

#### Chile's Municipal Elections Results

##### VOTES FOR MAYORS AND COUNCILLORS BY COALITION LIST

COALITION	MAYOR		COUNCILLOR	
	%	Elected	%	Elected
Alliance	38.65	103	37.66	877
Concertación	44.79	205	47.91	1,120
Together We Can	5.91	4	9.14	90
Independent (outside of pacts)	9.70	31	3.93	20
Other	0.92	2	1.33	23
<b>Total</b>	<b>99.97</b>	<b>345</b>	<b>99.97</b>	<b>2,130</b>

Source: Chilean Ministry of the Interior

##### VOTES FOR MAYORS AND COUNCILLORS BY PARTY

PARTY	MAYOR		COUNCILLOR	
	%	Elected	%	Elected
Christian Democrats	21.84	99	20.27	456
Communist Party of Chile	2.98	4	4.86	41
Independence Democratic Union	19.04	52	18.80	402
National Renovation Party	14.36	37	15.09	380
Party for Democracy	6.44	35	9.96	227
Radical Social Democrats	3.04	12	4.62	117
Socialist Party	11.81	45	10.90	256
Independent (outside of pacts)	9.70	31	3.93	20
Other	10.70	30	11.51	231
<b>Total</b>	<b>99.91</b>	<b>345</b>	<b>99.94</b>	<b>2,130</b>

Source: Chilean Ministry of the Interior

The election itself generated a high level of participation, with 81.7% of voters registered and 89.1% of the population casting valid votes; 10.8% of the ballots were null or spoiled, 2.8% higher than during the 2000 municipal elections. Overall, the results of the mayoral races were favourable for the Concertación and unfavourable for the Alliance, while the "Together We Can" received an unexpected number of votes. The Concertación obtained 44.79% of the vote, winning 205 of the mayoralties, double the Alliance's 103 municipalities—representing 38.65% of the vote. The third coalition list received 5.91% of the vote and won four mayorships. Thirty-one mayors were elected outside of these pacts (political alliances), receiving 9.7% of the votes

Results from the election of city councillors mirrored mayoral races, and Lagos once again emerged as the principal winner: the Concertación obtained 47.91% of the popular vote, while the Alliance gained 37.66%; "Together We Can" captured 9.14% and other lists took 5.26%.

Lavín, the presidential candidate nominated by the UDI and the RN, was negatively affected by the results. The Alliance did not reach their publicly announced objective, and remained 10 points behind the governing coalition, with the UDI and the RN receiving 18.8% and 15.09% of the vote respectively. However, Lavín does have a very strong support base and the two parties are firmly behind him; strengths that are increasingly relevant as the Concertación confronts the difficult task of nominating a single, agreed upon candidate.

#### Coalition Building?

The second winner to emerge from these elections was the PCD, winning 20.27% of the vote and electing 99 mayors, maintaining its position as the strongest party in Chile. The PDC's victory was highlighted by the fact that support for the PS and the PPD's remained stagnant, with the parties receiving 10.9% and 9.96% respectively. However, this result does produce a more even equilibrium within the Concertación coalition, as the PDC and the PS/PPD get set to nominate a presidential candidate. This result also puts the PRSD, the

fourth member of the Concertación coalition, in an interesting position; they obtained 4.62% of the vote and have formed a sub-pact with the PS/PPD in preparation for the presidential candidate selection.

The PS/PPD bloc has a common candidate, Michele Bachelet, while the PDC has to decide between former foreign minister Soledad Alvear—who leads public support in the polls—, ex-president Eduardo Frei and party leader Adolfo Zaldívar. The parties of the Concertación have agreed to nominate a common candidate in April or May of 2005. Given the conditions that currently exist, and based on the outcome of the candidate selection, the governing coalition could win the presidency for the fourth time. ■

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## Uruguay

On October 31, Uruguay held presidential and congressional elections, with the results marking a shift in the country's political landscape. Official elections results announced on November 8 proclaimed Tabaré Vázquez the winner with 50.45% of the vote in the first round of elections. This victory makes Vázquez, an oncologist and the former mayor of Montevideo, the first-left wing president in the country's history (LASC, 23/11/04). Perhaps more importantly, it is the first time that a third party candidate has won the presidency, signalling an end to the traditional Uruguayan two-party system that dates from the 1830s (Economist, 28/11/04).

Vázquez and his Progressive Encounter-Broad Front Party (EP-FA) coalition—formed by a number of centre and centre-left factions—also won majorities in both chambers of congress, taking 17 of the 31 senate seats and 53 of the 99 seats in the Chamber of Deputies, leaving them in a powerful governing position. The two traditional parties were left to split up the minority seats, with the incumbent Colorados (Red) Party winning only three seats in the Senate, and losing 23 seats in the Chamber of Deputies to control only 10 seats. The National "Blancos" (White) Party fared better, claiming 11 senate seats and increasing their seats in the Chamber of Deputies to 36 (LASC, 23/11/04).

Vázquez will assume the presidency in March 2005, and analysts are already speculating about how successful his new leftist government will be once in office. Vázquez faces several key challenges, and will have to successfully manage a large debt—approximately equal to annual GDP—and increasing pressure from the International Monetary Fund (IMF) to implement significant reforms; all the while negotiating with his coalition comprised of the Communist, Socialist and Christian Democratic parties, as well as ex-guerrilla members. Vázquez has promised moderation in his policies and signalled a willingness to work with international institutions, already designating Danilo Astori, who is considered a moderate, as Minister of Economy.

## Cracking Nest Eggs

Ana Yanes

On October 25 Fidel Castro announced that November 8 would mark the end of his government's acceptance of US-dollar commercial transactions. After November 14, Cubans, foreign tourists, foreign companies' staff and the diplomatic corps will pay the Cuban authorities a surcharge of 10% to exchange US currency into the domestic issued "convertible peso".

Francisco Soberón, President of Cuba's central bank, has described the move as an effective way to deal the United States a "severe blow" by withdrawing its currency from circulation. But we must wonder how far the "severe blow" will reach and who will actually feel its effects in the short and medium-terms.

In the short-term, the measures brought an obvious flow of US dollars into Cuban government coffers. More than 2.5 million transactions were reported to have occurred where US dollars were converted into "chavitos" (little pennies), a popular Cuban name for the less-trusted "convertible peso". Technically, it is true that whenever a US-dollar note stops circulating, the US government that printed it—roughly at a cost of paper and ink—suffers a loss. For example, suppose Cubans crack their nest eggs and, whether they like it or not, give their government a US\$350 million gift. A numerical example suggests that this gift—currency taken out of circulation—to the Cuban government equates to a US\$7 million cost to the United States. Surely the "severe blow" to the US economy can be described more accurately as an "imperceptible breeze". So what is the real point of this policy change? In order to determine what the Cuban government is actually trying to achieve we must look at what interest rate the Cuban government would have to pay on a US\$350 million loan if it had taken one out instead of receiving funds from its own citizens.

First, we must establish if the Cuban government could ever access that amount from international sources. The Cuban centralized state economy ranks among the 6 riskiest debtors, because it

has defaulted on its debt for almost 20 years, refused to accept its debt to its main creditor—Russia—and owes almost its entire GDP. Still, for the sake of argument, suppose the Cuban government could get quick access to a US\$350 million loan at 20% interest. It would still be behind US\$70 million in the transaction. Certainly this hurricane of cash flowing into the US\$32 billion inefficient Cuban state economy as a result of this policy change is more significant than the minuscule damage to the US economy.

Meanwhile, a severe blow is indeed being dealt, though it is not being dealt to the United States, but to Cubans. Cubans overseas will have to bear the increased transaction costs for sending money to their relatives on the island or watch them lack bare necessities. And those on the island will have to either exchange their savings into a currency they know is worthless outside Cuba, or keep them in US dollars, where they are subject to an uncertain future of increased costs and even the threat of eventual forced conversion.

The medium-term consequences would be associated with two of Cuba's major income sources: tourism, which brings in US\$2 billion a year, 75% of this from non-US-dollar countries, and remittances, which are sent mainly from the United States and are estimated to be between US\$0.7 and US\$1 billion a year. The Cuban government is hoping not to affect tourism income through its new policy by allowing tourists easy access to exchange. The government is also hoping to keep a stable remittances income, assuming that Cubans abroad will assume the higher transaction costs, and that Cubans on the island will use the "chavito".

Some analysts have predicted a potential drop in remittances in response to increased transaction costs. The logic behind this prediction goes "if ketchup A becomes more expensive its sales will drop". However, this drop will only be pronounced if consumers are buying more ketchup B or any other substitute instead. In the absence of substitutes, demand becomes less responsive to price, that is inelastic. When the only local phone company raises prices, demand does not drop in response but the company's income increases as a result. Similarly, the Cuban government is likely to see a stable remittances income if: Cubans' access to necessities depends on remittances; the only donors' choice is the Cuban government transfer mechanism; and, the only supplier for Cubans on the island are the government stores.

In case nationals do not "trust" their "revolutionary government" enough to spontaneously ask for "chavitos" in exchange for their remittances, government-operated businesses are being barred from accepting US dollars. At the same time, the government will likely keep the dollar legal for possession until the waters settle, rather than risk current US dollar remittances and tourism income.

The fact that possessing US currency will remain legal is not a trivial matter in the repressive Cuban society: Cuban citizens who possess US dollars will be easy repression targets in the near future. There could be a downside to asking for your remittances in US dollars at the government exchange houses in Cuba. Given that the black market is an alternative to the government stores, it is likely to expand, along with repression. Cubans who choose the US dollar will signal themselves as potential black-market participants,

against their "revolutionary government's efforts". Along with avoiding the 10% surcharge, fear of future repression may have also contributed to the massive exchange of US dollars into "chavitos".

The new twist in the *sui generis* Cuban monetary policy is providing the Cuban government with an instant avalanche of cash in the short-term, while clearing the way for the medium-term movement of remittances into easier-to-handle hard currencies, given the tightened US controls on international banks. The cost of the move is that it has already increased internal discontent and non-state activity. In Cuba, the choice of currency is again highly charged with politics and uncertainty. ■

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## The Impact of Higher Oil Prices on Oil Producing Countries: The Mexican Case

Isabelle Rousseau

During the past few months the price of oil has risen steadily, reaching record breaking levels—the highest since the invasion of Kuwait by Saddam Hussein in 1990. At some point, a barrel of WTI crude oil sold for more than US\$50 per barrel, while lower quality Mexican crude oil was selling for more than US\$35 per barrel. Over the last five years, the price of Mexican oil has increased by more than 100%—from US\$15.62 per barrel on average in 1999 to more than US\$35 (these figures are unadjusted, however, this does not change the conclusion).

Common sense would suggest that the current high price of liquid hydrocarbons represent a net gain for the economies of oil-producing countries. Without doubt as producers, these countries profit from the increase of their exports, and subsequently are enjoying additional revenues. However, this assumption is, in many ways, incomplete and oversimplified because it does not consider the ways in which the oil industry in

these countries is inserted into the national and international economies.

Mexico is an exemplary case in this respect.

In effect, as with any other state-owned firm of this type, *Petróleos Mexicanos* (PEMEX) has greater fiscal (and social) obligations than private companies, due to the revenue-driven vision that guides Mexico's national petroleum policy. In practice, PEMEX sends almost all of its revenues to the treasury. PEMEX pays a rate of 60.8% of its revenues earned from the sales of hydrocarbons, gasoline and other derivatives to third parties in Rights Over Hydrocarbons. In addition, if the price of the Mexican crude oil basket—during the fiscal year—exceeds the one estimated in the budget established by the annual income tax law, the federal government receives all the surplus revenue. In fact, within this fiscal framework, the allocation of the extra income generated by higher petroleum prices is already pre-assigned.

## Nicaragua

The Sandinist Front of National Liberation (FSLN) swept the November 7 municipal elections in Nicaragua with 44.7% of the vote. This victory has fuelled optimism about the FSLN's chances in the 2006 presidential elections. More importantly, the momentum generated by these electoral results has also provided the Sandinists with more political clout, which is putting new pressure on the government of Enrique Bolaños. Although the threat of an impeachment process against him on charges of corruption (see FOCAL POINT, October 2004) seems to have lost strength, a constitutional reform bill submitted on November 8 by the FSLN and the Liberal Constitutionalist Party (PLC) could radically weaken presidential powers—and consequently Bolaños' government.

The bill was introduced by legislators from the FSLN and PLC following the municipal elections, and already has enough support to be passed during this legislative period. However, to be ratified, the bill must be voted in two different sittings of the Assembly, which gives Bolaños some leeway at least for another year. The proposed amendments include the ratification of main political appointments by the Assembly (e.g. ministers, ambassadors, the chief prosecutor, human rights procurator); granting the Legislature the capacity to remove ministers from office, and more importantly, placing limitations on the presidential veto. — According to the bill, decisions vetoed by the president may be overridden by a simple majority vote in the Assembly (Latin News 16/11/04). The government has stressed that this bill would tilt the balance toward the Assembly, leaving the presidency in a very weak position.

These amendments would clearly limit the power of President Bolaños to define the composition of the cabinet and to veto decisions made by the Assembly, particularly since he maintains the support of only six of the 92 legislators. (The Economist, 11/11/04). Moreover, not only is Bolaños facing the Sandinists, but must also contend with members of his own PLC party, who blame him for sending Arnolfo Alemán, former President and party leader, to jail on corruption charges.

Following the public regulations published in the Official Federal Bulletin of December 30, 2002, 25% of the surplus income from oil (above the one calculated and approved by the annual tax law—*miscelánea fiscal*) goes to the Petroleum Stabilization Fund, 25% is earmarked for the improvement of public sector finances (payment of the debt) and the remaining 50% goes to cover state governments expenses (fiscal transfers). As a result, the revenues destined for investment in the oil industry are practically inexistent. For example, based on 2003 figures, PEMEX reported revenues totalling \$626.1 billion pesos and expenditures of \$340.5 billion pesos. Alongside this, its tax contributions—e.g. Rights over Hydrocarbons and Profits on Excess Returns (ARE)—totalled \$382.3 million pesos. As a result, PEMEX's state holding company reported a loss of \$41.8 billion pesos, having gone into debt to pay its tax contributions. In reality, only the big multinationals—such as Shell, Amoco, Exxon-Mobil and Repsol—that already have long-term production contracts to extract oil from the world's principal oil reserves benefit from rising oil prices.

Rising oil prices have not functioned as an incentive for investment in petroleum exploration and production either. In effect, PEMEX is granted the exclusive rights—enshrined in the constitution—for the exploration and production of hydrocarbons and the refining of these, and the production of basic petrochemicals; it is the only firm permitted to explore, extract, transport and process crude oil within Mexican national territory. The limitations imposed on private investment in the sector together with the increasingly confiscatory tax regime, prevents PEMEX from securing the financial resources necessary to take advantage of the current favourable conditions and to invest more aggressively in upstream operations.

Although it is true that Mexico is a net exporter of crude oil, it is also a net importer of petroleum derivatives (refined products and petrochemicals), that is to say, products with high value added. This situation nullifies, in practice, the revenues derived from oil sales to third parties. At the same time, the increase in

prices of these oil imports—in particular, the oil-bearing products such as gasoline and diesel—have negative repercussions on the price of all products and services, thereby causing real inflationary pressure.

Finally, the prospect of a decline in economic growth that high hydrocarbon prices could provoke in the long run in Europe, and more importantly in the United States, is by no means a positive factor for Mexico's economy, which is in large part dependent on its neighbours to the north. In the event of an oil shock (should the rising prices persist for a year), the oil-producing countries risk losing part of their market share to alternative energy sources—e.g. nuclear and carbon.

It is quite ironic to think that the only benefit to be gained from the sudden and strong rise of oil prices might not materialize in economic growth, but rather in the environment. According to a number of analysts, a slow and continual rise in crude oil prices would be the only way to encourage firms and states to develop alternative and clean technologies to produce energy.

To counteract these problems, it is not a coincidence that the Organization of Petroleum Exporting Countries (OPEC) determined—very wisely—some years ago that the most convenient approach, both for producers as well as consumers, was to maintain the price of oil at a threshold between US\$22 and US\$28 per barrel.■

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